

Message Text

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PAGE 01 MILAN 00541 072138Z
ACTION EUR-12

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SUBJECT: MILAN BANKERS VIEW US ECONOMIC POLICY WITH
CONCERN

1. SUMMARY. MILAN BANKERS SEE CONTINUING WEAK DOLLAR
AND WIDE EXCHANGE RATE FLUCTUATIONS NOT AS SIGNS OF WEAKNESS
IN TODAY'S FLOATING MONETARY ORDER, BUT RATHER AS RESULT OF
CONFIDENCE CRUNCH OVER US'S ABILITY TO COME TO GRIPS WITH
ITS BALANCE OF PAYMENTS PROBLEMS. END SUMMARY.

2. THIS IS GENERAL VIEW WHICH EMERGED FROM SERIES OF
INTERVIEWS CONDUCTED BY ECON OFFICER DURING LAST FEW WEEKS WITH
SENIOR MILAN BANKERS. MILAN, A GROWING EUROPEAN
BANKING CENTER (TEN US BANKS PRESENT). IS EVEN MORE
POWERFUL VOICE IN ITALIAN ECONOMIC AND MONETARY CIRCLES.
VIEWS OF TOP MANAGEMENT, THEREFORE, COUNT. HEADS OF BOTH
ITALIAN AND AMERICAN BANKS BASED HERE WERE LESS CONCERNED WITH INER-
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PAGE 02 MILAN 00541 072138Z

NATIONAL MONETARY SYSTEM THAN WITH ROLE US WAS PLAYING IN TODAY'S
WORLD ECONOMY.

3. MOST BANKERS WITH WHOM WE TALKED AGREED THAT TODAY'S SYSTEM
OF FLOATING EXCHANGE RATES MIGHT NOT KEEP EVERYBODY HAPPY ALL
THE TIME, BUT THAT IT WAS ONLY VIABLE ALTERNATIVE AROUND. FIXED
PARITIES WERE THING OF PAST, BUT CLEAN FLOAT CREATED TOO

MUCH HAVOC. MORE INTERVENTION TO SMOOTH ERRATIC FLUCTUATIONS IN FLOATING SYSTEM WOULD PROVIDE BEST SYSTEM UNDER TODAY'S CONDITIONS.

4. STILL, BANKERS HERE THINK US MUST DO SOMETHING TO STABILIZE IT CURRENCY. WHAT? ONE ITALIAN BANKER SAID, "IF YOU TRAVEL ACROSS SWITZERLAND AND GERMANY AND THEN MAKE A TRIP TO THE US THE RELATIVE STRENGTH OF THEIR CURRENCIES DOES NOT MAKE SENSE." OTHER BANKERS AGREEING WITH THIS VIEW SAID THAT TREMENDOUS DOLLAR OVERHANG MADE SPECULATION TOO EASY. IT WAS POSSIBLE THAT DOLLAR WAS SLOWLY MOVING TOWARD MORE REALISTIC RATE. BUT IT WAS MORE LIKELY THAT LACK OF CONFIDENCE IN US ABILITY TO CREATE STRONG ECONOMIC POLICY WAS FEEDING SPECULATION. CONTINUED GLOOMY NEWS ABOUT US'S HUGE TRADE DEFICIT WAS NOT HELPING. NOR WAS ADMINISTRATIONS INABILITY TO COME UP WITH ENERGY POLICY.

5. "THE TIME WHEN A STATEMENT BY THE PRESIDENT WILL INFLUENCE THE DOLLAR'S VALUE HAS NOT PASSED," SAID ELDERLY ITALIAN BANKER. "WHAT PEOPLE NEED TO SEE IS ACTION." ANOTHER SAID BASICALLY SAME THING. "GIVING PEOPLE A REASON TO BELIEVE THAT THE US ADMINISTRATION IS MAKING MOVES TO CONTAIN ITS TRADE DEFICIT AND ENERGY PROBLEMS WOULD DO MORE FOR THE DOLLAR THAN ANY OTHER THING."

6. BUT WAS THE DOLLAR HURTING ANYONE? NOT ITALIANS, RESPONDED LIMITED OFFICIAL USE

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PAGE 03 MILAN 00541 072138Z

OUR CONTACTS. WITH MOST OF ITS IMPORT INVOICING DENOMINATED IN DOLLARS AND ITS EXPORTS MOSTLY IN GERMAN MARKS, GENERAL DEVALUATION OF DOLLAR HAS HELPED ITALY'S BALANCE OF TRADE, EXPLAINED SEVERAL. IN FACT DOLLAR DEVALUATION HAS MASKED DEVALUATION OF LIRA. "SO, DEEP INSIDE NO ONE IN ITALY IS TOO SAD ABOUT THE DOLLAR'S WEAKNESS, AT LEAST NOT FOR THE TIME BEING," REMARKED HEAD OF LARGE ITALIAN BANK.

7. NOR WERE EXCHANGE RATE FLUCTUATIONS HURTING LOCAL EXPORTERS AND IMPORTERS. "MAYBE LIFE IS A LITTLE MORE DIFFICULT FOR THEM THAN A FEW YEARS BACK," SAID AMERICAN BANKER. "BUT ITALIAN TRADERS ARE LEARNING TO PROTECT THEMSELVES AND THE VOLUME OF TRADE HAS ONLY INCREASED IN RECENT YEARS."

8. THUS ALTHOUGH LOCAL BANKERS DO NOT THINK THAT DOLLAR DEVALUATION IS DAMAGING ITALY, THEY ARGUE THAT SOUND DOLLAR IS NECESSARY TO ALLOW OTHERWISE WORKABLE INTERNATIONAL SYSTEM TO FUNCTION. ESSENTIAL IN THEIR OPINION, IS RESTORING CONFIDENCE IN USG ABILITY TO REIGN IN TRADE DEFICIT AND DEAL WITH OTHER PRESSING PROBLEMS. FINA

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